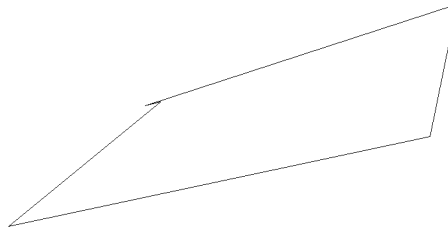




**Director of
Central
Intelligence**

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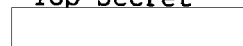


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POLAND: Economic Relations With the West

Some Polish economists are arguing that economic relations with the West must be improved, but the leadership seems unwilling to follow this advice.

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The economists have contended in a recent series of press articles that Western sanctions are doing serious damage to the economy, that the government's response of depending on the East is unrealistic, and that Poland should take measures that would help persuade the Western countries to ease their sanctions. They argue that sanctions have greatly reduced Poland's access to credits and have blocked economic recovery.

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Poland has slashed imports from the West by 43 percent in the first quarter to achieve a trade surplus and make some debt payments. As a result, output of manufactured goods has continued to slump.

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The articles also argue that reorienting trade toward the East is merely a "slogan," because of Poland's heavy dependence on Western imports and the lack of substitutes in CEMA. A government study claims that less than 10 percent of industrial materials imported from the West could be replaced by the East. In addition, Poland is not receiving major assistance from CEMA partners, as had been hoped.

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Comment: The experts exaggerate the positive effects of an end to Western sanctions, reflecting a belief among many Poles that this would start a flood of new credits. Western lenders are deterred more by Poland's bankruptcy than by sanctions.

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Despite the poor results of their economic policies, there is no indication that anyone in the leadership is participating in the debate. Hardliners may believe that the regime went as far as it could to persuade the West to lift sanctions with its "grand gesture" of releasing political internees earlier this month.

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Without some move toward improving economic ties with the West, however, Warsaw faces painful choices. The regime probably will be forced to expand its austerity measures--a politically risky approach when the population is already adjusting to a substantial drop in living standards.

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SOUTH KOREA: Impact of Financial Scandal

//Reverberations of the recent financial scandal continue.//

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//The first student demonstrations in reaction to the scandal were staged on two university campuses in Seoul yesterday, on the eve of the special National Assembly session called to look into the problem. The students are condemning the government's involvement in the scandal and are demanding the ouster of President Chun. To mitigate the economic disruptions caused by the scandal, the government has adopted a series of monetary measures to increase the availability of funds to small firms in order to compensate for the closure of the unofficial money market.//

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Comment: The regime moved swiftly to contain the student activity, but further student protests are likely. Although the government has laid careful plans to limit criticism of its policies at the Assembly session, opposition parties will probe the regime's role in the scandal and seek the resignation of the economic ministers who survived the cabinet changes last week.

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//The new economic measures, while helping to offset the loss of access to the unofficial money market for many firms, probably will not prevent a rise in bankruptcies. Many firms will continue to face serious cash shortages that could prevent them from meeting payrolls and cause more unemployment.//

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//The scandal, however, apparently has not damaged Seoul's access to foreign capital or its strong international credit rating. Foreign banks this week signed a new \$500 million syndicated loan for the Korean Exchange Bank.//

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INTERNATIONAL: Adverse Reaction to US Sugar Quotas

Comment: Negative reaction to the US import restraints is likely to continue for several weeks as exporting countries recover from the initial shock of the quotas. Most exporting countries in the Caribbean object that potential losses from the quotas will offset any concessions foreseen in the Caribbean Basin Initiative.

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EAST GERMANY: Regime Sponsors Peace Demonstrations

More than 100,000 students and workers in East Berlin--as part of an annual spring youth festival--yesterday joined in a government-organized peace demonstration, and thousands of young people also are expected to participate in an officially sponsored "peace march" tomorrow. The event has previously been a propaganda forum for attacking NATO's armament policy and for extolling the Warsaw Pact's commitment to peace. This year, however, the regime is concerned that dissident activists will use the event to try to win converts to their view that both East and West should disarm. Some peace activists plan to attend the demonstrations wearing the forbidden "swords-into-plowshares" insignia.

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Comment: The rally yesterday will be held up by the regime as an example of massive popular support for East Germany's official peace doctrine. The government hopes that the march tomorrow will take the initiative away from the unauthorized peace movement, which has staged several demonstrations this spring. Supporters of the dissident movement probably will have little impact on the proceedings, but will not be deterred and will continue to push their cause in peace activities being organized by the Lutheran Church for next month.

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FINLAND: More Problems for the Communists

The non-Communist members of the People's Democratic League, the electoral front organization used by the Finnish Communist Party, are likely to try to claim a larger policymaking role at the front's triennial congress this weekend. The front has always been dominated by the Communists, who hold 30 of its 35 parliamentary seats while comprising less than a third of the membership. Leaders of the front's non-Communist majority recently have become more assertive in arguing that most Finns will continue to view the front as essentially a Communist organization until its left socialist element acquires its own central organization and decisionmaking bodies.

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Comment: //The stirrings of the non-Communists in the front are sure to add to the strains in relations between the Finnish and Soviet Communist Parties. In addition, the non-Communists' initiatives will erode the Communist Party's control over what is supposed to serve it as a vote-gathering mechanism.//

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